

SUBJECT: PHILIPPINES ECONOMIC WRAP-UP: MAY 12 - 18, 2001

Summary

1. On the heels of peaceful and successful national elections May 14, markets are now sitting back to see what it all means. In addition to our regular reports on Forex, Credit and Stock markets, we also note the 7.7% drop in 1st quarter imports. Further, in the banking scene we report on some new investments and on continuing efforts to rehabilitate Urban Bank. End Summary.

2. These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our February 2001 Economic Outlook, which is now available on our web site. The next edition of the Outlook will be released in early June.

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I. Market and Policy Developments

FOREX REPORT

3. The Philippine peso strengthened somewhat early in the week, as traders were with the peaceful outcome of the nationwide elections held May 14. The peso weakened slightly, however, later in the week, and from its May 11 close of P50.30/US\$ moved to end at P50.33/US\$ on May 18. (See Section II for detailed forex data.)

CREDIT MARKET REPORT

4. After a full rejection of all bids at the May 7 auction, traders apparently took the threat of the Treasury Bureau to reject all bids above 9.5% for the 91-day bill. As a result of the strong stance, rates on the 91-day paper fell 58.9 basis points to 9.513%. Rates on the longer term bills also fell; the 182-day bill shed 40.9 basis points to 10.915%; and the 364-day bill sank 37.5 basis points to 11.35%. Full awards were made of all three maturities. (See Section II for detailed data on interest rates.)

5. The decline in T-bill rates also reflected expectations of a cut in U.S. Federal Reserve policy rates, with materialized on Wednesday. The Monetary Board of the Bangko Sentral ng Pilipinas (BSP, the central Bank) took the Fed's lead and reduced its overnight lending and borrowing rates by 50 basis points (to 11.25% and 9% respectively). Philippine policy rates were last at these levels in May 2000. This ninth cut of the year reflects the desire of monetary authorities to spur loan growth, but analysts remain bearish that demand for loans will recovery anytime soon.

STOCK MARKET REPORT

6. Philippine stocks traded at slightly higher levels than the previous week, but volumes remain moribund reflecting general wariness among investors. The 33-share Philippine Stock Index (PHISIX) actually dropped sharply on Monday, reflecting profit taking from a unusually positive session the proceeding Friday.

Overall from its close of 1484.83 on May 11, the PHISIX moved to end the week at 1448.62. (See Section II for detailed stock market data.)

MAY 14 ELECTIONS PEACEFUL, SUCCESSFUL

7. Perhaps as many as 85% of registered Philippine voters turned out on May 14 to participate in national elections. 13 Senate slots, the entire House of Representatives, and thousands of provincial and local positions were up for grabs. Despite some headline-grabbing campaign violence (including the assassination of a sitting congressman, Marcial Punzalan, while he was campaigning for his wife), the actual voting was somewhat less exciting. Vote counting for local races will last up to a week, but the official results of national elections for the Senate and party-list Congressmen will not be known for at least three more weeks. Markets were temporarily buoyed by the successful elections, but the business focus remains on the outcome, and most importantly, whether the newly elected officials can form a team with the administration and find the will to implement a strong reform agenda.

1ST QUARTER IMPORTS DOWN 7.7%

8. The Philippines' import bill declined by 4.5% year-on-year in March, after declining 6.8% in January and 11.7% in February. The cumulative three-month import bill contracted by 7.7% from 2000's comparable level. That first-quarter import decline outpaced that of exports (down 0.5% year-on-year, Manila 2689) -- producing a wider 2001 first-quarter merchandise trade surplus of \$1.3 billion (up by 7.2% or \$566 million from the first quarter of 2000).

9. Weak imports partly reflected the slowed global demand for electronic products (which comprise about 60% of Philippine export receipts and are import-dependent). From a broader perspective, the lethargic trade numbers also suggest a first-quarter slowdown in domestic economic activity; and, despite various expressions of improved optimism and confidence in the new Macapagal-Arroyo administration, still-cautious investment and

inventory policies. Low inventory levels (suggested by three consecutive years of net inventory withdrawals) may give the import bill some push in coming months. However, the Philippines is expected to sustain a merchandise trade surplus despite lethargic exports, reflecting expectations of weaker economic growth and assuming that improved prospects for more stable world oil prices hold.

 PHILIPPINE FOREIGN TRADE PERFORMANCE
 (FOB Value in Million US\$)

	Exports	Imports	BOT
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Jan 2000	2,717	2,651	65
Feb	2,902	2,483	419
Mar	2,989	2,742	247
Jan-Mar 2000	8,607	7,876	731
Jan 2001	2,889	2,472	417
Feb	2,805	2,193	612
Mar	2,870	2,602	267
Jan-Feb 2001	8,564	7,267	1,297

 Source: National Statistics Office

BANKING NOTES

10. Acquisition in the Works: According to senior Bangko Sentral officials, Dutch ABN AMRO, N.V. -- which owns and operates a local thrift bank subsidiary in the Philippines (ABN AMRO Savings Bank) -- is in negotiations to acquire the local commercial bank subsidiary of Malaysian TA Bank Berhad. ABN AMRO's local thrift bank had earlier expressed intentions to upgrade to a commercial bank; and TA Bank, on the other hand, has failed to meet staggered increases in minimum capital requirements since 1998. Without such a deal, ABN AMRO Savings Bank would be constrained from converting to a commercial bank under a three-year moratorium on the granting of new commercial bank licenses (inclusive of license upgrades) stipulated in the General Banking Law of 2000 (GBL).

11. A BSP moratorium on the granting of new bank licenses actually has been in effect even before the 2000 GBL (i.e., since September 1999) to promote acquisitions or mergers among existing banking institutions. The Bangko Sentral has approved more than 30 acquisition and merger deals since the Asian crisis, with 17 other proposals pending approval. Two commercial banks, 40 or so thrift banks, and over 100 rural banks reportedly remain short of BSP-required, end-2000 minimum capitalization levels -- suggesting there is room for further consolidation in the banking system.

12. Urban Bank Update: Officials of the Export Industry Bank (Export Bank) announced that they met the Philippine Deposit Insurance Corporation's (PDIC) May 15 deadline to submit important components of the rehabilitation proposal for Urban Bank and the latter's investment house subsidiary. These included signed agreements with the Social Security System (for a P600 million capital infusion); with major depositors Petron, San Miguel Corp., and Meralco on pay-out terms; and with existing shareholders (representing the legal majority) on their equity claims and recovery values. Exportbank and the National Association of Urban Depositors and Creditors (NAUD) jointly submitted the lone rehabilitation proposal for Urban Bank and its investment house on April 25 (after Bank of Commerce backed out of an earlier deal at the last minute).

13. A thorny issue has emerged, however -- PDIC's requirement of a P30 million performance bond (which the rehab proponents argue was not part of the original terms and conditions agreed with the PDIC). On the other hand, PDIC officials -- seeking to prevent a repeat of the aborted Urban/Bank of Commerce deal -- have thus far insisted that there can be no action on the rehab proposal and a memorandum of understanding with the PDIC until Exportbank/NAUD produce the P30 million surety bond.

II. Statistical Annex

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
APR 09	Markets Closed		
10	50.017	49.900	78.5
11	49.880	49.930	69.5
12	Markets Closed		
13	Markets Closed		
APR 16	50.086	50.200	99.3
17	50.238	50.300	105.3
18	50.173	50.110	162.0
19	50.054	50.060	136.5
20	50.218	50.280	141.1
APR 23	50.441	50.480	145.5
24	50.437	50.415	105.0
25	50.546	50.550	116.2
26	50.764	51.000	132.4
27	51.218	50.870	152.2
APR 30	51.339	51.450	170.9
MAY 01	Markets Closed		
02	51.001	50.730	167.5
03	50.459	50.280	149.2
04	50.349	50.380	81.3
MAY 07	50.504	50.440	59.0
08	50.477	50.460	76.5
09	50.482	50.650	120.5
10	50.624	50.590	137.0
11	50.487	50.300	117.5
MAY 14	Markets Closed		
15	50.321	50.180	131.1
16	50.136	50.140	127.5
17	50.162	50.260	111.1
18	50.342	50.330	132.5

Source: Bankers Association of the Philippines

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
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APR 10	9.959	11.005	11.638
APR 16	10.027	no sales	no sales
APR 23	9.855	10.959	11.368
APR 30	10.102	11.324	11.725
MAY 07	no sales	no sales	no sales
MAY 15	9.513	10.915	11.350

Source: Bureau of the Treasury

Prime Lending Rates of 14 Expanded Commercial Banks

Date of Survey	Average	Range
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APR 05	13.1808	10.75 - 14.611
APR 19	13.4611	11.00 - 15.027
APR 23	13.3529	10.75 - 14.855
MAY 03	13.4683	11.25 - 15.102
MAY 10	13.4861	11.25 - 15.012
MAY 17	13.2171	10.75 - 14.513

Sources: Bangko Sentral ng Pilipinas; Press reports

Philippine Stock Exchange Index (PHISIX) and
Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
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APR 09	Markets Closed	
10	1459.49	479
11	1445.26	445
12	Markets Closed	
13	Markets Closed	
APR 16	1453.84	236
17	1435.68	271
18	1425.97	507
19	1428.87	614

20	1428.54	411
APR 23	1437.16	259
24	1444.00	304
25	1462.18	431
26	1437.50	302
27	1420.36	398
APR 30	1378.84	446
MAY 01	Markets Closed	
02	1435.88	765
03	1430.39	376
04	1442.46	405
MAY 07	1431.91	466
08	1427.28	567
09	1441.77	352
10	1443.85	643
11	1484.83	1134
MAY 14	Markets Closed	
15	1457.97	497
16	1461.79	311
17	1453.03	376
18	1448.62	397

Source: Philippine Stock Exchange